

**Follow-Up Performance Audit:
Department of
Watershed Management
Billing and Collection of Water
and Sewer Service Charges**

November 2004

Office of the City Internal Auditor

City of Atlanta



CITY OF ATLANTA
Office of City Internal Auditor
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Follow-Up Performance Audit:

Why We Did This Audit

This audit follows up on our January 2003 report on the billing and collection of water and sewer service charges and our February 2003 review of the competitive business plan for the new Bureau of Water.

We reviewed the current billing and collection process in the Department of Watershed Management, Bureau of Water. We also reviewed the extent to which our previous recommendations had been implemented.

At the time of our previous reviews, United Water Services Unlimited Atlanta, LLC, handled billings and collections. These functions returned to the city in late April 2003.

What We Recommended

We recommended that the department begin the collection process sooner following an account delinquency, for greater collection effectiveness.

Specifically, the department should:

- shut off services when bills are 30 days past due,
- refer delinquent accounts to the city's collection agency when 90 days past due,
- promptly research and refer accounts to the Department of Finance for potential property liens when they have not been settled with the collection agency within a reasonable time,
- promptly and properly write off uncollectible accounts,
- develop a collection strategy that targets the large delinquent residential population, in addition to focusing on the 200 accounts with the largest delinquent balances, and
- pursue legal action against customers who turn their water back on after the department has shut it off for nonpayment.

We also recommended that the department implement all of our previous recommendations, many of which had not been fully implemented.

Billing and Collection of Water and Sewer Service Charges

What We Found

The Department of Watershed Management's collection efforts do not begin quickly enough to be effective. The entire collection process, including termination of services, referral to the collection agency, and the use of property liens, usually occurs after an account has been delinquent for so long that it has little probability of being collected. As a result, the department's collection rate decreased and accounts receivable (uncollected revenue) increased since the department took over these operations from United Water in April 2003.

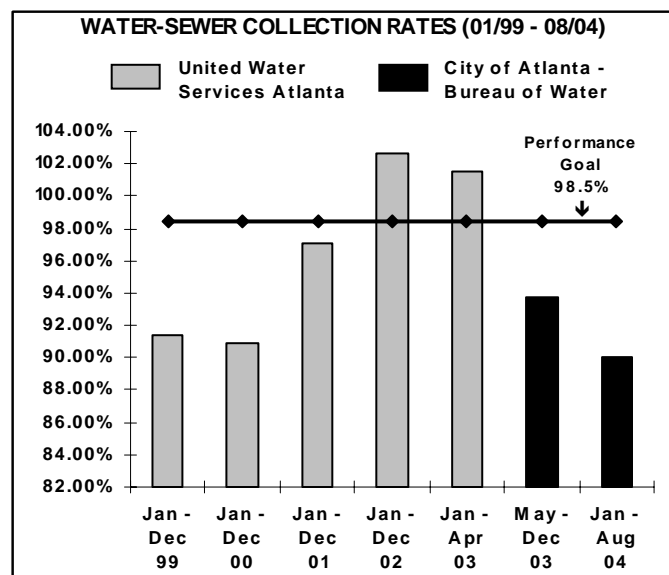
Specifically, we found:

- It took the department an average of 103 days to collect bills that are due within 15 days of the billing date.
- The Code requires services to be shut off no later than 30 days after the bill's due date; delinquent residential accounts were not shut off until they reached \$700, which took an average of 10 months in 2003. Multiple shut offs often occurred on the same account.

A limited number of delinquent accounts were referred to the city's collection agency or recommended for property liens.

As a result,

- The average water and sewer collection rate was 91.65 percent from May 2003 through August 2004 - well below the department's 98.5% performance goal.



- The low collection rate caused accounts receivable to increase \$26.6 million (49%), from \$54.7 million at the end of April 2003 to \$81.3 million at the end of August 2004.



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Mayor Shirley Franklin
Council President Lisa Borders

November 30, 2004

Honorable Mayor and Members of the City Council:

This report follows up on two previous reports on the city's water and sewer system: our January 2003 audit of billings and collections by the city's former contractor, United Water Services Unlimited Atlanta, LLC, and our February 2003 review of the city's business plan for resuming water system operations from United Water, including billings and collections. Our primary purpose in the follow-up audit was to assess the Department of Watershed Management's progress in improving collections and meeting its collection rate goal. The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6, of the City Charter.

The results reported in the following pages are disappointing. The collection rate has fallen steadily since the city resumed control of the billings and collections function at the end of April 2003. Uncollected revenue from water and sewer customers has continued to grow, even before rates increased in January 2004.

The city's collection performance has been poor because its enforcement strategy has been ineffective. Collection efforts have not begun soon enough and have not been aggressive enough. By the time service to delinquent customers was shut off, the likelihood of collecting past-due amounts had already declined significantly. Moreover, many nonpaying customers were not subject to any enforcement action during the 16-month audit period (May 2003 through August 2004).

Our recommendations, most of which remain unchanged from those we made in our earlier reports, call for much quicker initiation of service shutoffs and subsequent enforcement and collections procedures. The process we recommend not only is in line with accepted collection practices, it also complies with the Atlanta Code of Ordinances, while the department's practices did not.

We provided the draft audit report to the Commissioner of Watershed Management on October 29, after briefing him on preliminary findings and recommendations on September 28 and October 21. The commissioner's response is included as Appendix 3 of this report, and comments from the chief financial officer are provided as Appendix 4.

The commissioner of Watershed Management expresses agreement with all recommendations and describes the actions the department is taking to implement them. In some instances, the commissioner asserts that factual statements in the audit report are incorrect. In most cases, these statements reflect what we found at the time of the audit, while the commissioner's comments reflect changes that occurred after the department became aware of the audit findings. In all cases, statements in the report accurately reflect the interviews and other evidence we obtained during the audit.

We appreciate the courtesy and cooperation of staff in the Departments of Watershed Management and Finance during this audit. The audit team for this project included Stephanie Jackson, Anthony Nicks, Richard Edwards, and Harriet Richardson.

A handwritten signature in cursive script that reads "W. Wayne Woody".

Wayne Woody
Audit Committee Chair

A handwritten signature in cursive script that reads "Leslie Ward".

Leslie Ward
City Auditor

Department of Watershed Management - Billing and Collection of Water and Sewer Services

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Introduction

This follow-up audit of the Department of Watershed Management's Billing and Collection of Water and Sewer Service Charges was conducted pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the Office of the City Internal Auditor, and outlines the City Internal Auditor's primary duties. The Audit Committee reviewed the specific scope of this audit in July 2004.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.¹

This audit is a follow-up of the City Internal Auditor's January 2003 performance audit report titled *United Water Services Unlimited Atlanta, LLC, Billing and Collection of Water and Sewer Service Charges*. At the time of the audit, United Water was the contractor responsible for the city's water and sewer billings and collections. The report contained nine recommendations to improve the billing and collection process. It also provided analysis used in the city's decision in 2003 to return the contracted function to an in-house operation.

In February 2003, we also issued a memorandum titled *Review of Competitive Business Plan for New Bureau of Water*. Our memorandum included five recommendations designed to make the Department of Watershed Management more efficient and effective during the transition of water operations back to the city.

Our brief assessment of the department's implementation of the specific recommendations included in our previous two reports is shown in Appendix 1.

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington, DC: U.S. General Accounting Office, 2003, p. 21.

Audit Objectives

This audit is a report of the Department of Watershed Management's recent efforts regarding the billing and collection of current and delinquent retail water and sewer accounts, as well as a review of the implementation status of the recommendations made in our previous reviews. The report answers the following questions:

- Are collection enforcement activities adequate to ensure timely collection of accounts?
- Have policies and procedures been written and implemented to ensure that collection activities comply with the Atlanta Code of Ordinances?
- Has action been taken to identify and remove uncollectible accounts from the department's accounts receivable and to place liens on the properties of owners with delinquent accounts whenever possible?
- Have steps been taken to implement the recommendations from our previous review of the billing and collection of water and sewer accounts, as well as those from the Bureau of Water's business plan?

Scope and Methodology

This audit was conducted in accordance with generally accepted government auditing standards. We conducted our audit fieldwork from March 2004 through October 2004. Our analysis covered water and sewer account data from April 2003, when the city took back the management of those functions from the contractor, through August 2004. Our analysis of shut offs included data through September 2004, and property lien data are reported through October 2004.

The majority of the data used in this report was generated from United Water's billing and collection system, C-Star II, which is now being used by the Department of Watershed Management. As required by generally accepted government auditing standards, this system was assessed for reliability of data during our previous audit,

and we concluded that the data was sufficiently reliable to support our findings and conclusions. At the time of this review, we did not have reason to change our assessment.

The audit methods included:

- Obtaining information from the Department of Watershed Management staff regarding the status of implementing the recommendations made in our previous review of the water and sewer billing and collection process, and implementing the Bureau of Water's Competitive Business Plan.
- Interviewing Department of Watershed Management and Department of Finance staff regarding the water and sewer billing and collection process.
- Comparing the department's written policies and actual practices to Chapter 154, Utilities, of the Atlanta Code of Ordinances (the Code) for compliance with the Code's billing and collection requirements.
- Recalculating key indicators of collections performance (e.g., collection rates and accounts receivable turnover) used in the January 2003 audit report.
- Reviewing dashboard measures related to collections and water operations.
- Analyzing C-Star II data on charges, payments, and shut off activity since May 2003.
- Comparing the proposed and actual revenues and expenses for the Bureau of Water.
- Reviewing the work of auditors in other jurisdictions and researching professional literature for information on best practices.

The work we performed on Bureau of Water expenditures compared to business plan estimates was of very limited scope. Based on our compilation, the Bureau of Water has had lower expenditures in 2003 and 2004 than the Department of Watershed Management had estimated in its business plan for resuming control of the city's water system. However, the reasons for the difference are unclear and may

be affected by several factors. Detailed analysis of these factors and their impact on expenditures was beyond the scope of the follow-up and the level of resources we could devote to this objective. We are, therefore, unable to draw any conclusions regarding the Bureau of Water operations based on the expenditure comparison.

Cost and expenditure trends in the Bureau of Water might be better analyzed and understood as part of a financial analysis of the Department of Watershed Management as a whole. We will consider the need for such analysis in our planning for future audits in the city's water and sewer system.

Background



The Atlanta water system is currently operated and maintained through the Department of Watershed Management, Bureau of Water. The water system supplies over 100 million gallons of water daily to retail, residential, commercial, and industrial customers within the city and portions of Fulton County south of the Chattahoochee River, and on a wholesale basis to other municipalities that include Clayton and Fayette Counties and the cities of Fairburn, Union City, and Hapeville. The area served is approximately 650 miles, with approximately 148,500 water meters.

**The city ended
its contract with
United Water in
April 2003**

In January 1999, the city and United Water entered into a 20-year agreement for United Water to operate and maintain the city's water system. However, both the city and United Water later agreed that the twenty-

year contract was not in the best interest of either party, and they mutually agreed in January 2003 to terminate the contract. At the end of April 2003, approximately four years and four months after entering into the agreement, the city took over the operation and maintenance of the water and sewer system, including the billing and collection function.

The time our January 2003 report was issued, United Water was providing those services, but the recommendations we made could have been implemented by either the contractor or the city. We found that United Water's collection performance fell short of the 98.5 percent performance standard included in their contract. The poor performance caused the water and sewer accounts receivable to more than double. Additionally, the contractor was not shutting off

services or charging late fees on delinquent accounts. Our recommendations addressed critical steps to improve future collections, specific actions to increase collections on delinquent accounts, and procedures to write off old accounts that are essentially uncollectible. The majority of the findings and recommendations included in this report address these same issues.

The Department of Watershed Management issued its business plan in January 2003 while planning for the transition of the billing and collection responsibility to the city. The plan described the proposed operation and management of the city's water system under the new Bureau of Water, established when the United Water contract was dissolved. The plan provided estimates for improved efficiency, service, and costs of operations.

In our review of the department's Competitive Business Plan, we made recommendations to address customer service staffing, costs related to employee pensions, and the provision of outsourced services. We also recommended that the new Bureau of Water prepare a report on their expenses to compare with their business plan projections, and develop additional performance measures.

A number of significant changes have taken place since the return of the water operations functions to the city. Effective January 9, 2004, the city council approved a significant water and sewer rate increase. Exhibit 1 shows that the rates increased in three major ways: (1) a minimum monthly charge was established for water and sewer services, (2) a tiered rate structure was implemented for varying levels of usage, and (3) a Homeland Security surcharge of \$0.15 per CCF was added to each bill. The rate change is apparent in the water and sewer total billings. The Department's average² monthly billings were \$17 million in 2003; the average was \$22 million during the first eight months of 2004.

² The total billings are adjusted for public nonrevenue and city accounts and other adjustments (see methodology in Appendix 2).

EXHIBIT 1
COMPARISON OF OLD AND NEW WATER AND SEWER RATES

CHARGES	2003 MONTHLY RATES	2004 MONTHLY RATES
Minimum Charge	None	Minimum of \$20.49, first 6 CCF* (\$5.79 for water, \$14.70 for sewer)
Rate Per CCF	Flat \$3.10/CCF charge	3-Tiered Structure for Water Usage Levels: <ul style="list-style-type: none"> • \$20.49 – First 6 CCF (minimum charge) • \$3.91 – 7 to 12 CCF • \$4.495 – 13 CCF and up
Homeland Security Surcharge	None	\$0.15 per CCF

*Water usage is measured in CCF (hundreds of cubic feet); one CCF is approximately 750 gallons of water. The water and sewer rates are combined in this illustration.

SOURCE: Department of Watershed Management data

In September 2004, the department implemented a policy change that placed all water and sewer customers on monthly billings. Previously, the majority of residential customers were billed on a bimonthly basis and most commercial customers received monthly bills.

Findings and Analysis

Summary

The City's Collection Strategy Should Emphasize Early Action

The department's entire collection process should begin sooner after an account becomes delinquent. It is important to put most of the collection effort into the front-end of the process, beginning with prompt shut offs.

Subsequent collection activities, such as referring delinquent accounts to the city's collection agency and using the property lien process, also should occur earlier for greater effectiveness and to ensure that the department has the greatest probability of collecting on the accounts. If the initial efforts occurred sooner, it would likely reduce the need for the later activities.

Since the Department of Watershed Management resumed responsibility for water and sewer billing and collection in April 2003, accounts receivable (uncollected revenue) has increased by \$26.6 million (49 percent). At the same time, the department's collection rate has dropped to 91.7 percent, which is well below the average collection rate of 95 percent that we cited in our previous audit report and the 98.5 percent collection rate that the department established as a performance goal when it took over water operations from United Water. Although there were some months during 2003 and 2004 in which the department exceeded the goal, neither the annual nor the 12-month rolling averages reached 98.5 percent.

The increase in accounts receivable and the department's failure to meet the collection performance goal are primarily because the department's collection efforts on delinquent accounts do not begin quickly enough to be effective. The entire collection process, including terminating water and sewer services for nonpayment, referring accounts to the city's collection agency, and placing liens on eligible properties, usually occurs after an account has been delinquent for such an extended period that it already has little probability of being collected. From May 2003 through August 2004, it took the department an average of 103 days to collect payments that were due within 15 days of the billing date.

The amount of time that accounts are allowed to remain delinquent prior to being slated for shut off is inconsistent with the shut off provisions in the Code. The Code mandates that services be shut off no later than 30 days after the due date for monthly bills and no later than 60 days for bimonthly bills. However, the department did not usually shut off services until delinquent accounts reach a certain

dollar threshold, which took an average of 10 months for residential accounts in 2003. Because this is one of the first and usually most effective steps in the enforcement process, it should occur as soon as possible after the bill's due date.

The department has not consistently written off uncollectible debts. This has increased both the accounts receivable balance and the city's allowance for doubtful accounts. As stated in our previous audit report, all uncollectible accounts should be written off in accordance with generally accepted accounting principles.

To improve the collection rate and decrease the accounts receivable balance, the department should develop a more effective collections process with specific time frames for each stage of the process. The process should be consistent with the Code provision and emphasize early action. The department should:

- shut off delinquent accounts within 30 days after the bill's due date as mandated by the Code,
- refer delinquent accounts to the city's collection agency within 90 days after the bill's due date if shut offs are not effective in obtaining payment on the accounts,
- promptly research accounts for property lien potential if the accounts are not settled within a reasonable time by the collection agency,
- properly and promptly write off accounts that are determined to be uncollectible, and
- pursue punitive action against customers who turn their water back on after the department has shut it off for nonpayment.

Except for the last point listed above, these issues were addressed in our January 2003 audit report on billing and collection functions when United Water managed those operations. The recommendations we made in that report are shown in Appendix 1. The department should continue to take steps to implement all of these recommendations to correct the deficiencies mentioned above. As shown in the appendix, the majority of the recommendations have not been fully implemented.

The City's Collection Performance Has Been Poor

The department's lack of prompt action in collecting on delinquent accounts has resulted in a drop in the overall collection rate and lost revenue to the city. Because the department's collection efforts begin after accounts have been delinquent for an extended period of time, the likelihood of collecting on those accounts has decreased greatly. In addition, the department has not implemented a consistent process for writing off uncollectible accounts. These combined factors have resulted in a sizable increase in the city's accounts receivables, many of which are unlikely to be collected.

The City's Collection Rate Has Fallen Sharply Since Transferring Operations from Contractor

During the 16-month period since the city took over the management of water and sewer services from United Water, the average collection rate was 91.7 percent, well below the established performance goal of 98.5 percent.

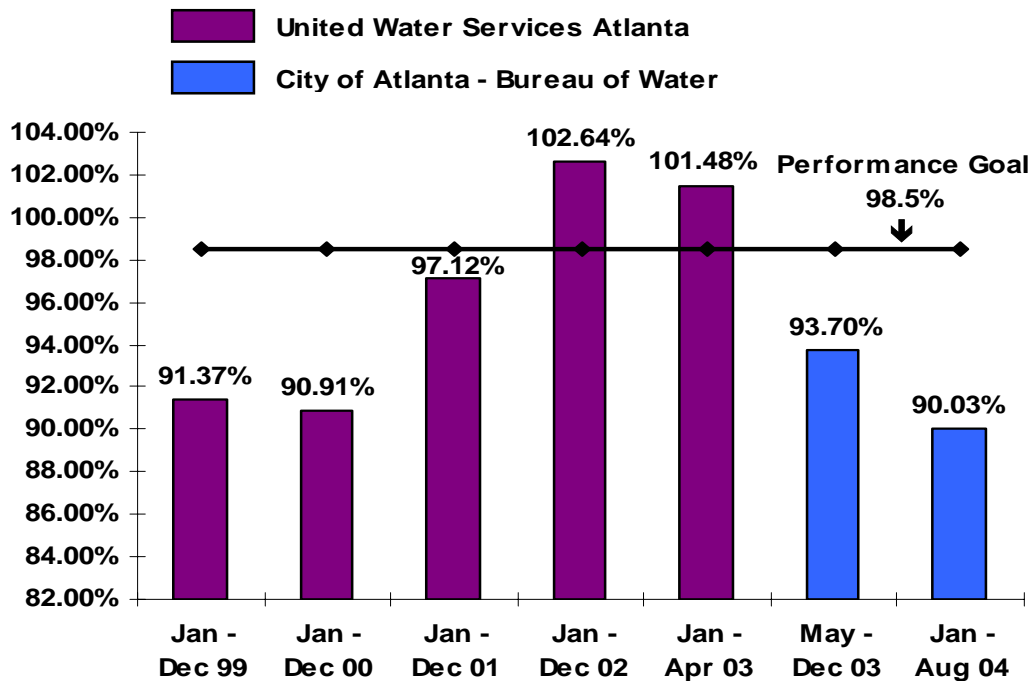
If the department had met the average 98.5 percent collection rate, the additional 6.85 percent would have provided another \$22 million in revenue for the city.

The average collection rate is 91.7% since the city took over water and sewer operations; the performance goal is 98.5%

The 98.5 percent collection rate was cited as a performance goal in the department's January 2003 Competitive Business Plan; the same collection rate was also required for United Water. It should be noted that the performance standard was intentionally set below 100 percent. The 1.5 percent difference takes into consideration accounts that are uncollectible for a special circumstance, such as customer bankruptcy.

Exhibit 2 shows that the collection rates have fallen substantially since the city reclaimed management of water operations in late April 2003. We calculated the current collection rate by using the same methodology as in the January 2003 audit report, which is explained in detail in Appendix 2.

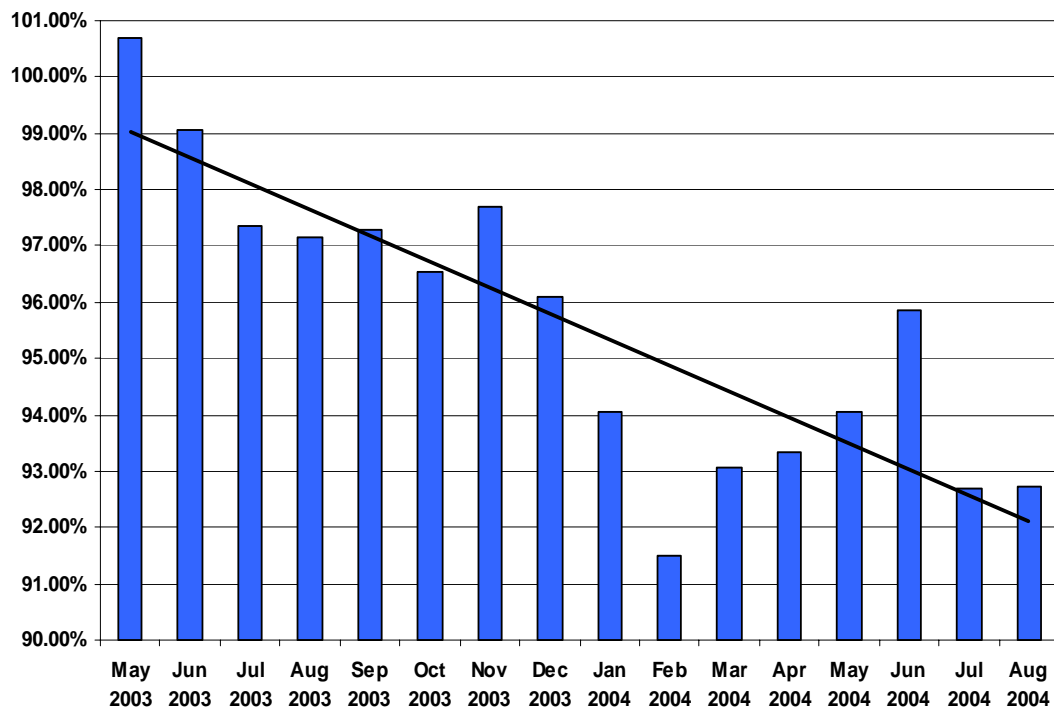
EXHIBIT 2
WATER-SEWER COLLECTION RATES
JANUARY 1999 THROUGH AUGUST 2004



SOURCE: Audit staff analysis of C-Star II 6248 reports

We also calculated the collection rate from May 2003 through August 2004 as a rolling 12-month average to normalize the monthly fluctuations that occur with a cyclical billing and collection process.³ Exhibit 3 shows a consistent decline in the collection rate when it is shown as a rolling 12-month average.⁴

EXHIBIT 3
ROLLING 12-MONTH AVERAGE COLLECTION RATES
MAY 2003 THROUGH AUGUST 2004



SOURCE: Audit staff analysis of C-Star II 6248 reports

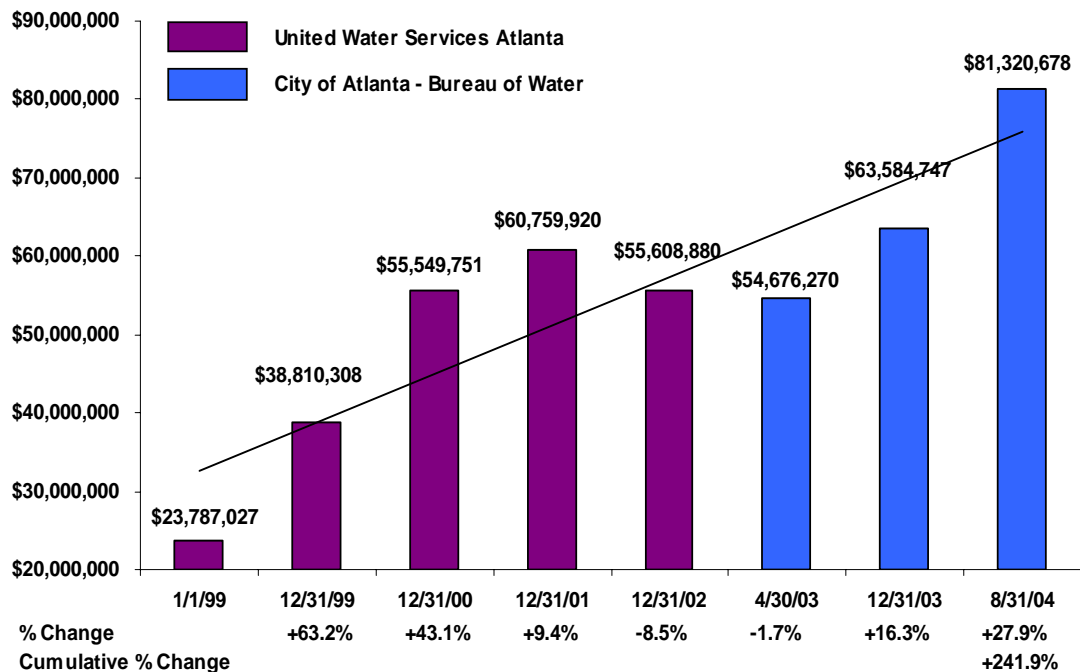
³ Meter readings and billings are scheduled in cycles that are staggered throughout the month to maintain an even flow of work in the department. Customers receive their bills at different times of the month depending on their billing cycle. Payment is due 15 days after the billing date, which is often not until the following month. The 6248 reports show all payments received in a month regardless of their respective billing cycle. This means that a portion of the payments received are always for prior month billings, including those received on aged delinquent accounts. This also means that the collection rate for any given month cannot be calculated to accurately reflect "current" collections, or those that are received on time. Using a rolling 12-month collection rate neutralizes the effect of the staggered billing and payment cycles.

⁴ United Water also used a 12-month rolling average.

Accounts Receivable Has Increased \$26.6 Million

Exhibit 4 shows that the accounts receivable balance increased \$26.6 million in 16 months, growing from \$54.7 million in April 2003 to \$81.3 million in August 2004. This 49 percent increase reflects a combination of the decrease in the collection rate shown in Exhibit 2 and a 30.5 percent increase in the average monthly billings, from \$17 million in 2003 to \$22.2 million in 2004.⁵

EXHIBIT 4
GROWTH IN ACCOUNTS RECEIVABLE BALANCE
JANUARY 1999 THROUGH AUGUST 2004



NOTES: The accounts receivable balance shown for 12/31/03 does not match that shown in the audited financial statements for the following reasons:

- The financial statement balance includes accrual adjustments for services provided in 2003 but not billed or adjusted until 2004.
- The balance is adjusted for the reserve for doubtful accounts.
- A portion of the accounts receivable balance belongs to Fulton and DeKalb Counties and has been removed from the balance shown in the financial statements; those amounts continue to be shown in this chart because the city bills and collects for those services.

SOURCE: Audit staff analysis of C-Star II 6248 reports

⁵ The growth in the average monthly billings is largely due to the January 2004 rate increase. Additional analysis would be required to determine the separate impacts of the rate increase, other factors that affected total monthly billings, and the decrease in the collection rate on the accounts receivable balance.

Enforcement Actions Have Been Too Late To Be Effective

The department does not take aggressive enforcement action on accounts until the accounts have been delinquent for an extended period of time. As a result, the probability of collecting the debt is very low by the time the department takes action. During our review we found:

- The department does not terminate residential water and sewer services until the account balance reaches \$700. A large percent of the residential customers have their service shut off multiple times, although such action does not necessarily result in payments on the accounts. According to department officials, some customers turn their water back on without authorization after the department has shut off water services. The department does not take any punitive action against these customers.
- Because it takes approximately 10 months for an average residential bill to reach the \$700 threshold for shut off, the department already has less than a 57 percent probability of collecting the bill.
- The majority of the shut offs were on residential accounts, but the department does not focus its collection efforts on this group in particular. Instead, it focuses primarily on the 200 delinquent accounts with the largest balances.
- The department does not refer delinquent accounts to the collection agency or recommend properties for lien until the probability of collecting the debt is very low.
- The department does not follow its written procedures or generally accepted accounting principles (GAAP) for writing off uncollectible accounts.
- The department does not charge late fees on delinquent accounts as mandated by the Code.

To increase collections, the department should perform shut offs within 30 days of the bill's due date as required by the Code. It should also take more progressive steps to prevent customers from turning their water back on after the department has shut it off for nonpayment. Furthermore, department officials should pursue punitive action against customers who turn their water back on.

In addition to focusing collection efforts on the 200 accounts with the highest balances, the department should take steps to improve collections within the residential population, which has the highest number of delinquencies. Also, delinquent accounts should be referred to the city's collection agency within 90 days after the due date of the bill. If the collection agency cannot collect the debt within a reasonable time, the account should be researched for property lien eligibility. If an account is determined by the department to be uncollectible, it should be promptly written off in accordance with GAAP provisions. The department should modify the existing C-Star II system, or ensure that any future billing system has the capability to assess late fees on delinquent accounts.

Shut Offs Are Not Done Quickly Enough

The department's current practices allow an account delinquency to continue for longer than allowed in the Code before service is shut off. In addition to violating the Code, the amount of time that an account remains delinquent before meeting the department's criteria for shut off greatly reduces the collectibility of the delinquent account, thus increasing the department's accounts receivable balance. The department should terminate service according to the timelines set in the Code. This recommendation, made in our previous audit, has not been implemented.

The department does not slate a delinquent residential account for shut off until the balance reaches \$700, and commercial accounts are not slated for shut off until the delinquent balance reaches \$25,000, according to a department official. Department staff indicated that they established these thresholds because they do not have sufficient staff to do delinquent shut offs in compliance

with Code requirements. Department officials also stated that the work priority is for normal turn ons and shut offs, emergency meter readings, and other regular services related to residential or commercial service requirements. Delinquent shut off activity is conducted after these other services are provided.

Delinquent residential accounts are not slated for shut off until an account balance reaches \$700, which took an average of ten months in 2003

According to C-Star II data, the average (bimonthly) residential bill was \$156 from January 2000 through December 2003. It would take

an average of five billing cycles, or ten months, for a residential account balance to reach \$700.⁶ This threshold allows customers to accrue a large amount of debt before the account is terminated for nonpayment and also decreases the probability of collecting the debt.

According to the Code, in no event will termination of service be later than 30 days from the due date of the bill for monthly bills and 60 days for bimonthly bills. However, delinquent customers who are billed bimonthly do not receive the first written notification of their delinquency until 30 days after the bill's due date. The department should begin collection efforts earlier by providing notice shortly after the due date of the bill and terminating service according to the timelines set in the Code.

Staff also indicated that since the department has moved to a 30-day billing cycle for all customers, the minimum thresholds for flagging an account for shut off may increase in order to handle the volume. Although the consumption will balance out over time with the billing change, the bills will remain delinquent for longer periods of time if the thresholds are increased. This would place the accounts in greater delinquency before enforcement activities are performed and make them even less likely to be collected.

Payments are already less likely when the city takes first steps to collect. The department's untimely enforcement practices decrease the chances of the city collecting on delinquent accounts. Shut off activity does not occur until accounts have already fallen into the category in which collection industry standards have determined the bill to have a very low probability of collectibility. This practice delays the other stages of the collection process, such as collection agency referral and lien placement.

Other statutory and procedural restrictions make it imperative for the department to begin collection efforts sooner. The city's collection agency does not accept accounts that are more than four years delinquent because of the state's four-year statute of limitations for debt collections. These aged accounts are also not eligible for property liens.

As stated in our previous audit report, a survey by the Commercial Collection Agency Association (CCAA) shows that the probability of

⁶ The average residential bimonthly bill increased to \$193 from January through August 2004 because of the January 2004 rate increase. In these cases, it would take four bimonthly billing cycles or approximately eight months, to reach the \$700 threshold.

collecting delinquent accounts drops significantly as they age. The ten-month timeframe for an average residential bill to reach the \$700 threshold for shut off results in a collection probability of less than 57 percent, as shown in Exhibit 5.

**EXHIBIT 5
COLLECTION STATISTICS AS REPORTED BY
A COLLECTION INDUSTRY SURVEY**

Age of Account	Collection Probability
3 months	73%
6 months	57%
12 months	29%

SOURCE: Commercial Collection Agency Association

The combination of the rapid decrease for collecting a delinquent account during the first year and the state's four-year statute of limitations on collecting debt make it critical for collection efforts to begin quickly after an account's due date.

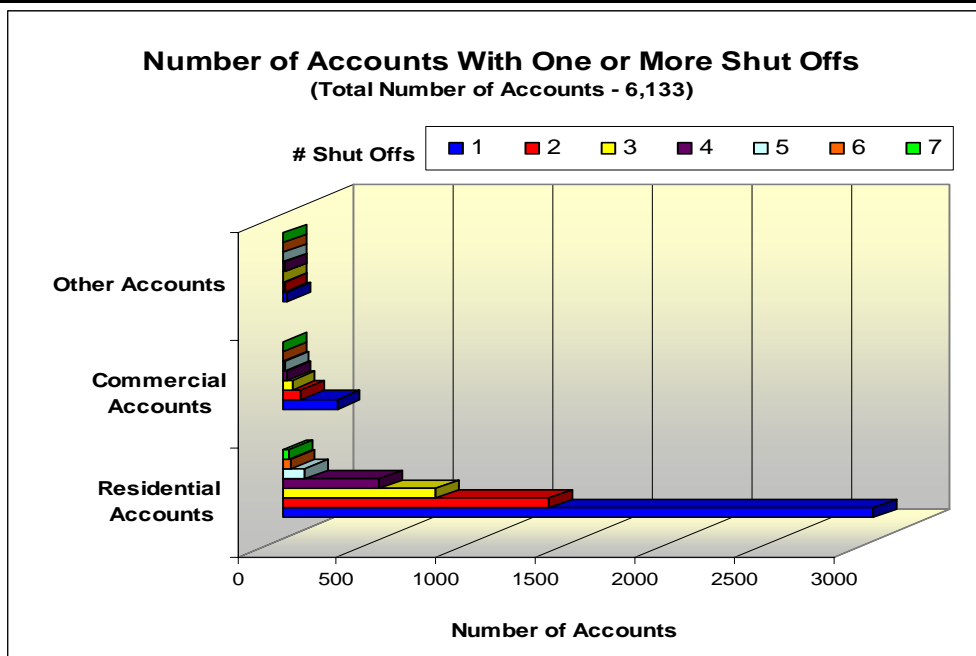
Multiple shut offs do not increase collections. According to department staff, water is generally shut off on residential accounts that reach the \$700 shut off threshold. However, consumption and service charges continue on some accounts after the department has shut off service, even without payment on the accounts. Department staff reported that this is because some customers turn their water back on after shut off, without department authorization. The department does not usually take more stringent action in these instances. Service for some of these delinquent accounts is turned off repeatedly, often with no payments made.

**27 residential
accounts were
shut off 7 times
each, within a
16-month period.**

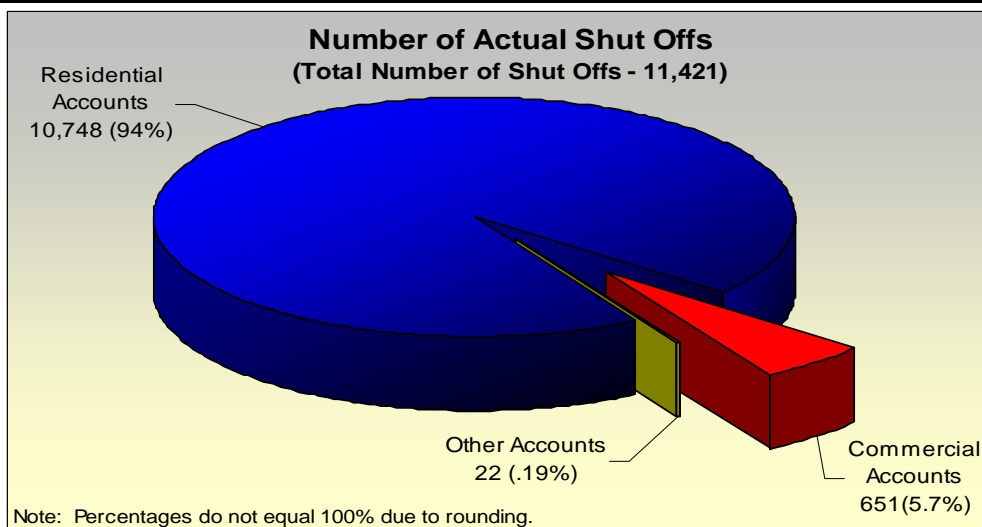
Exhibit 6 shows that 11,421 shut offs were done from May 2003 through July 2004 on a total of 6,133 delinquent accounts. The accounts are classified as residential, commercial, and other accounts.

Other accounts include, but are not limited to, wholesale and industrial accounts. As shown in the exhibit, the majority of the shut offs occurred among residential accounts, including the multiple shut offs. A \$20 shut off fee is charged to an account each time the water is shut off.

**EXHIBIT 6
SHUT OFF ACTIVITY
MAY 2003 THROUGH JULY 2004**



Number of Shut Offs Per Account	7	6	5	4	3	2	1	Total Number of Accounts
Residential Accounts	27	37	104	478	761	1330	2962	5699
Commercial Accounts	0	0	5	16	40	87	268	416
Other Accounts	0	0	0	1	0	1	16	18
Total Number of Accounts								6133



SOURCE: Audit staff analysis of C-Star II data

Theft of city water should be prosecuted. As previously mentioned, department staff have indicated that some customers turn their water back on after shut off without department authorization. The department should exercise all options provided in the Code, such as plugging or removing the meter, to handle customers who turn their water back on after shut off. The department should also establish procedures to pursue punitive action against customers who turn their water back on after the department has shut it off for nonpayment.

Section 154-69 of the Code of Ordinances allows water meters to be removed, plugged, or locked if the water is turned off on any premise for nonpayment of the bill and is later found on. The customer will be charged for the plug, lock, or removal in addition to water consumption charges. Additionally, Section 154-70 of the Code states that the offender may be subject to a fine or imprisonment for an illegal connection to the city system (connections without authorization of the department). The state criminal Code (Official Code of Georgia Annotated, §16-8-5) provides penalties for persons who commit theft of services that are available for compensation.

The Department Should Refer Delinquent Accounts to the Collection Agency Sooner

The city has contracted with a collection agency to collect revenue from outstanding inactive accounts (i.e., those that are no longer receiving service and have been closed) that are less than four years old. Delinquent accounts are pursued by the department's in-house collection staff before they are transferred to the city's collection agency. However, there is a low probability that the debt will be collected by the time delinquent accounts are referred to the collection agency. The department should refer delinquent accounts to its contracted collection agency within 90 days after the due date of the bill, regardless of whether the accounts are active or inactive. These efforts, combined with other early enforcement activities such as timely shut offs, would improve the collection of delinquent accounts while the probability of collection is still high.

The department focuses its collection activities primarily on the 200 accounts with the largest balances. If the in-house team cannot collect the debt within a reasonable time or does not have the resources to collect on the accounts, it may refer those accounts to the city's collection agency. The Commercial Collection Agency Association recommends that an account be placed with a collection

agency when it is 90 days past the due date or, in some cases, earlier. However, the majority of the accounts on the top 200 list have been delinquent for longer than 90 days. As a result, the probability of collecting the debt is relatively low by the time these accounts are referred to the collection agency.

The Department Has Made Limited Use of the Lien Process as a Collection Tool

The department has made limited use of property liens to protect it against defaults on delinquent accounts. In proportion to the volume of delinquent accounts, the number that was referred for liens was very small. Additionally, over one-third of the accounts referred were ineligible for liens for various statutory and administrative reasons, some of which occurred because the department waited too long to refer delinquent accounts for liens. Similar to other stages of the collection process, the lien process should be conducted sooner to be effective.

The number of accounts referred for property liens was relatively small, and over one-third of those referred were ineligible for various statutory and administrative reasons.

Section 154-30 of the Code authorizes the chief financial officer (CFO) or other authorized collector to place liens on properties with delinquent water and sewer bills after the commissioner has certified that other methods of collection were ineffective. Placing a lien on the property requires the debt to be paid before the property's title can transfer to another owner. The Department of Finance files liens after receiving a list of properties with delinquent accounts from the Department of Watershed Management and researching the properties to verify their eligibility for a lien. Once a lien is filed, the customer either voluntarily pays the account in full or waits until the property is sold and makes payment from the proceeds of the sale. The lien is released from the property after the delinquent account is paid in full.

The Department of Watershed Management did not use the lien process for accounts in the early stages of delinquency. Although the department took back the collection of water and sewer accounts from United Water in April 2003, it did not begin referring accounts for liens until December 2003. Because the department's collection

priority was larger, older accounts, many of the referred accounts were aged. These accounts were less likely to be protected from default through the lien process because circumstances surrounding the property owner often changed. Additionally, the extensive research required verifying a property's eligibility for a lien, and the requirement to provide the property owner with a 30-day notice of intent to file a lien, caused accounts to age even further before a lien could be filed.

Waiting too long to begin the process can result in a property becoming ineligible for a lien for various reasons, including the account holder filing for bankruptcy, expiration of the statute of limitations, or not being able to identify the property owner. Additionally, a property cannot have a lien filed on it if the account holder is not the property owner (e.g., a renter). The effectiveness of the lien process is further reduced if a property owner avoids a lien without paying the delinquent account by using the 30-day waiting period as a window of opportunity to file for bankruptcy or transfer property ownership.

The department used the lien process sparingly. Department of Finance records show that the Department of Watershed Management referred 405 properties for liens between December 2003 and September 2004, which was a small fraction of the total number of delinquent accounts. Over one-third of those referred, or portions thereof, were ineligible for various reasons, including expiration of the statute of limitations. The status of the 405 accounts at the end of October 2004 was:


- 261 property owners were sent 30-day notices of intent to file a lien:
 - 50 properties – liens totaling \$2.7 million were filed; a payment of \$58,000 was received from one property sale;
 - 105 properties – the city was preparing checks to pay the filing fees; the account balances totaled \$829,000 when the lien notices were mailed but were being verified prior to the liens being filed;
 - 55 properties – the account balances were being verified; the eligible dollar amount of these accounts was not yet known;
 - 51 properties – the 30-day waiting period was still underway and their eligibility for a lien was not yet finalized; the eligible dollar amount of these accounts was not yet verified, but they had a combined balance of \$208,000 when they were initially referred for liens.

- 144 accounts were ineligible for a lien:
 - 23 accounts were referred back to the Department of Watershed Management for further collection activity or write off;
 - 121 accounts were ineligible for various reasons as described above.

Similar to other stages of the collection process, the lien process should be conducted sooner to be more effective. Under the department's proposed timeline for collections, delinquent accounts should be referred for liens no later than 90 days after the department's in-house collection team or the collection agency have attempted collection. Prompt referrals for property liens would be more likely to protect the city's financial interests from default on delinquent accounts.

The Department Has Not Taken Steps to Promptly Write Off Uncollectible Accounts

The department is not following its written procedures or GAAP for writing off uncollectible accounts. Although a large portion of the accounts receivable have been allocated to an allowance for doubtful accounts, the accounts receivable shown on the city's financial statements continues to include delinquent accounts that have aged beyond the statute of limitations. According to department records, the city council approved 20 uncollectible accounts for write off in December 2003 for a total of \$897,226. However, the department did not recommend any other accounts for write off until the end of October 2004. Appendix 1 shows that we made this recommendation in our previous review, but it has been only partially implemented.

The Department of Watershed Management's and the Department of Finance's written policies allow the CFO to recommend to the city council that accounts with delinquent balances exceeding \$10,000 be written off as bad debt. Additionally, a  ordinance allows the CFO to administratively write off delinquent accounts of \$10,000 or less when they are determined by the CFO and city attorney to be uncollectible.

The write off procedures are supported by GAAP provisions that state *accounts receivable are reported in the financial statements at their net realizable value, by establishing an allowance for bad debts.*

When specific customer accounts are subsequently identified as uncollectible, they are written off against the bad debt allowance.

According to a department official, the department has not written off additional accounts because they are trying to work with the collection agency to allow them enough time to collect on the delinquent accounts. However, as stated in our previous audit report, the accounts receivable balance and the allowance for doubtful accounts increase significantly each year because the city has not consistently written off the uncollectible water and sewer accounts. Also, the excessive accounts receivable obscures the debt that is collectible.⁷

The department should determine which accounts are “uncollectible” and follow the proper procedures to have these accounts written off, either administratively by the city’s CFO or by the council through the recommendation of the Department of Finance, whichever is appropriate.

Department Officials Should Re-examine Their Collection Strategy

The department’s current collection efforts focus on the 200 accounts with the highest delinquent balances, and the staff have been successful in collecting approximately \$14 million from March 2004 through July 2004. This strategy focuses on accounts that are generally greater than 60 days old, which are mostly commercial accounts and apartment complexes, and excludes those with active payment arrangements or in bankruptcy. The strategy does not incorporate our previous audit recommendation to develop an aggressive and targeted collection program, does not focus on recent delinquencies, and does not address the widespread delinquencies in residential accounts.

Over 7,000 residential customers made no payments on their accounts between May 2003 and September 2004, although they continued to receive services. Most accounts with multiple shut offs were residential, as illustrated previously in Exhibit 6. In addition to working with the top 200 list, the department should analyze shut off patterns and develop a more inclusive collection strategy to address the widespread residential delinquencies and deter multiple shut offs on those accounts.


⁷ The lack of write offs does not distort the financial statements because the accounts receivable are adjusted for the allowance for bad debt and reported at the net realizable value.

Late Fees Are Not Assessed on Delinquent Accounts

The Department of Watershed Management is not assessing a late fee on delinquent accounts, as mandated by the Code and as provided for in the department's written policies. The mandatory fee is \$5, or five percent of the total bill, whichever is larger. As stated above, over 7,000 residential customers have made no payments on their accounts within the past 17 months but continue to receive services. The result of not charging the late fees is loss of revenue. Assessing the late fees could also function as a deterrent for continued delinquencies. We made this recommendation in our previous audit report, and as shown in Appendix 1, it has not been implemented.

The department's written policy states, *the imposition of late fees is an important incentive to ensure timely remittances...the late fee should be assessed on accounts that are not paid by the established due date*. However, according to department staff, they are not charging late fees because the C-Star II system is unable to calculate a percentage fee – it can only calculate a flat fee. It should be noted that late fees also were not charged on delinquent accounts when United Water managed the water services as well.

The department recently released a Request for Proposals to hire a contractor to develop a new customer information system. One of the required features is that the new system have the *ability to calculate and apply a penalty when payment is not received on time*. The department should ensure that the contractor chosen to provide the new billing system meets this requirement, to comply with the Code.

Until the new system is implemented, the department should determine the cost effectiveness of modifying the current C-Star II system to provide the capability of charging late fees on delinquent accounts, compared to potential revenue that late fees would generate. The C-Star II system would have to be reprogrammed to calculate the late fees, and the billing reports would need to be revised to show the late fee as a line item on customer bills.  United Water estimated in 2002 that it would cost \$7,300 to modify the C-Star II system to calculate late fees. This estimate did not specify whether the \$7,300 included both the flat rate late fee and a percentage late fee. However, department staff reported that the

C-Star II system cannot be modified to accommodate a percentage late fee.

Recommendations

Our recommendations identify improvements that will make the collections process more effective and increase the probability of collecting on the delinquent accounts. The first recommendation emphasizes the need to implement the recommendations made in our previous reviews.

1. **Implement the Recommendations Made in Our Previous Reviews.** The recommendations made in our January 2003 performance audit report titled *United Water Services Unlimited Atlanta, LLC, Billing and Collection of Water and Sewer Service Charges*, and the February 2003 memorandum titled *Review of Competitive Business Plan for New Bureau of Water* are listed in Appendix 1, along with their implementation status. These recommendations are still applicable, and the department should fully implement all of them.
2. **Start the Collection Process Sooner.** The commissioner should develop and implement a policy to start collection activities sooner, working with the CFO whenever required. The policy should include specific timeframes for each stage of the collections process to improve the collection rate and decrease the accounts receivable balance. The process should be consistent with the Code provisions and should emphasize early action. The department should:
 - develop a collection strategy that focuses on the large number of delinquent residential customers in addition to the top 200 list,
 - shut off water and sewer service within 30 days after the bill's due date, as mandated by the Code,
 - refer delinquent accounts to the city's collection agency within 90 days after the bill's due date if shut offs or other collection efforts are not effective in obtaining payment,

- research properties for lien potential and refer these accounts to the Department of Finance if the accounts are not settled within a reasonable time by the collection agency, and
 - promptly and properly write off uncollectible accounts when all other collection efforts have proven to be unsuccessful in obtaining payment.
3. **Take Legal Action Against Customers Who Turn Their Water Back On After the Department Shuts it Off.** The commissioner should exercise all options provided in the Code, such as plugging or removing the meter, to handle customers who turn their water back on after shutoff. If these efforts prove to be ineffective, the commissioner should work with the city attorney to develop procedures to pursue criminal action against customers who turn their water back on without the authorization of the department.

Appendices

APPENDIX 1
IMPLEMENTATION STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS

RECOMMENDATION	STATUS
Billing and Collection of Water and Sewer Service Charges, January 2003:	
<p>1. A thorough review and clean up of the accounts in the C-Star II system should be performed to remove uncollectible accounts. This will establish a reliable basis for calculating the current collection rate, analyzing payment and collection activities for trends, and identifying where to focus collection efforts. The review and clean-up process should:</p> <ul style="list-style-type: none"> Identify all accounts with delinquent account balances greater than four years. Determine which of those accounts have not received water services for an extended period of time and take steps to close those accounts and recommend them for write-off. Identify each account with an outstanding dispute and initiate action to resolve the dispute. Upon completion of this review, accounts should be adjusted as necessary, recommended for write-off, or pursued for collection. Determine the collectibility of all remaining delinquent accounts and identify which to include in an allowance for doubtful accounts, to recommend for write-off, or to pursue for collection. Determine the accuracy of the account classifications and reclassify those that are incorrectly classified as to type. Particular attention should be given to the classification of multi-unit dwellings to ensure consistency in their classification. 	<p>Partially Implemented</p> <p>Partially Implemented</p> <p>Partially Implemented</p> <p>Partially Implemented</p> <p>Partially Implemented</p>
<p>2. Upon completion of this review, the city should:</p> <ul style="list-style-type: none"> Develop a list of accounts to recommend for write-off and follow established procedures to ensure these accounts are written off before the 2002 financial statements are prepared. Develop a list of accounts recommended for property liens and initiate action to ensure the liens are placed. Pursue collection activities on all remaining delinquent accounts as discussed in Recommendation 3 below. 	<p>Partially Implemented</p> <p>Partially Implemented</p> <p>Partially Implemented</p>

APPENDIX 1 (continued)
IMPLEMENTATION STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS

RECOMMENDATION	STATUS
<p>3. A plan should be developed for an aggressive and targeted program for immediate collection of delinquent accounts for which collection is still feasible. This plan should conform with the requirements of Section 154-120 of the Atlanta Code of Ordinances and the guidelines provided by the Commercial Collection Agency Association, and should, at a minimum, address the following:</p> <ul style="list-style-type: none"> • Prioritization criteria (e.g., age, amount, accounts still receiving water) to determine which accounts to pursue first. • A sequence of collection enforcement activities, including a timeline for each. • A letter to delinquent customers informing them of the action to be taken if their account is not paid or placed on an arranged payment schedule by a certain date. The letter should identify any associated late fees or shut-off fees and a date on which service will be terminated, as well as subsequent action that will be taken, such as forwarding the account to a collection agency or placing a lien on the property. The letter should also specify that termination of service will only be avoided if the account is paid in cash or with a cashier's check, money order, certified check, or credit or debit card (i.e., no personal checks). • An amnesty period that would allow delinquent customers to have late fees waived if the account is paid in full by a specified date. This action would require an ordinance to allow a one-time waiver of the late fee requirement in the Atlanta Code of Ordinances. It could also involve extending cashier service hours on weekdays and opening on Saturday during this period of time to encourage customers to pay their delinquent accounts. 	<p>Partially Implemented</p> <p>Partially Implemented</p> <p>Not Implemented</p> <p>Partially Implemented</p> <p>Not Implemented</p>

APPENDIX 1 (continued)
IMPLEMENTATION STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS

RECOMMENDATION	STATUS
<p>4. The Department of Watershed Management and the Department of Finance should develop policies and procedures for collection of delinquent accounts as required by Section 154-120 of the Atlanta Code of Ordinances. The policies and procedures should be based on an understanding of the likelihood of collection at various intervals of delinquency, and the impact of collectibility on the financial condition of the Water and Sewerage System Fund. The policies and procedures would guide the ongoing collection process after the targeted program discussed in Recommendation 3 has ended and should:</p> <ul style="list-style-type: none"> • Address each element specifically identified in the Code. • Clearly delineate roles and responsibilities and establish the sequence and timeline for each aspect of the collection process (e.g., phone calls, late fees, letters, termination of service, referral to a collection agency, property liens). • Establish a timeline for progressive enforcement actions that is based on the probability of collection and meets the deadlines for termination of service in the Atlanta Code of Ordinances. 	<p>Partially Implemented</p> <p>Partially Implemented</p> <p>Not Implemented</p> <p>Not Implemented</p>
<p>5. The city should have timely access to monthly aged accounts receivable reports, preferably within ten days after the end of the month. The reports should be aged at intervals that represent the probability of collection, based on collection industry statistics, the timelines established in Section 154-120(1) of the Atlanta Code of Ordinances, and the state statute of limitations for obtaining a legal judgment on delinquent accounts (i.e., 30, 60, and 90 days; 6 months; 1 year; and 4 years). The city should review these reports as they are received to determine the adequacy of collection efforts, identify additional collection activities to pursue, and identify accounts that should be recommended for write-off.</p>	<p>Partially Implemented</p>
<p>6. The city should ensure that uncollectible accounts are written off in a timely manner to ensure compliance with generally accepted accounting principles.</p>	<p>Partially Implemented</p>

APPENDIX 1 (continued)
IMPLEMENTATION STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS

RECOMMENDATION	STATUS
7. The city should develop a definition of the term "current" as used for calculating the collection rate. Specifically, a determination needs to be made as to whether a current payment is one made by the due date of the bill, within 30 days of the billing date, prior to the next billing date, or some other date. After developing a definition, the methodology for calculating the current collection rate needs to be revised to incorporate the definition.	Not Implemented
8. The billings and collections reporting system should generate a monthly report that calculates the current collection rate as described in the methodology developed in Recommendation 7. Specifically, this report should include all "current" payments received in the month, the total billings for the period of time that would allow "current" payments to be received and associated adjustments, including those for nonrevenue and city accounts.	Not Implemented
9. The city should establish additional performance measures to assess collection performance and a requirement for developing a corrective action plan for not meeting the required standards. Examples of performance measures that might be considered are average collection period and timeliness of collection efforts (e.g., sending late letters, terminating service).	Not implemented
Review of Competitive Business Plan, February 2003:	
1. The new Bureau of Water should experiment with both weekend and evening hours for customer service calls and walk-in services to determine a feasible schedule that best meets customer needs and the Bureau's workload.	Not implemented
2. The city and the board of the General Employees Pension Fund should explore gradual payment of city pension contributions to match employee contributions for service credits for their years of United Water employment.	Implemented

APPENDIX 1 (continued)
IMPLEMENTATION STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS

RECOMMENDATION	STATUS
3. The new Bureau of Water and the Department of Watershed Management should make periodic reports on expenses compared to the business plan estimates and financial goals (e.g., revenue collections and overtime use), as well as on staffing compared to workload. The reports should include updated projections of the estimated annual operation and maintenance costs and staffing levels.	Not Implemented
4. The new Bureau of Water should consider city provision of outsourced services where it is cost effective to do so and opportunities to explore managed competition exist.	Not Implemented
5. The new Bureau of Water should ensure that proposed performance measures and future performance measures clearly state what will be measured and how it will be measured, and that all performance measures include a goal for achieving the performance target.	Partially Implemented

APPENDIX 2
DETAILED COMPARISON OF COLLECTION RATE AND COLLECTION RATE VARIANCE
JANUARY 2002 THROUGH AUGUST 2004

MONTH	ADJUSTED TOTAL BILLINGS	PAYMENTS			COLLECTION RATE		
		AMOUNT TO COLLECT AT 98.5%	PAYMENTS RECEIVED	VARIANCE ON PAYMENTS RECEIVED	ACTUAL	VARIANCE	12- MONTH AVERAGE
United Water Services Atlanta's Performance:							
Jan 2002	\$15,266,733	\$15,037,732	\$16,633,044	\$1,595,311	108.95%	10.45%	97.27%
Feb 2002	14,397,738	14,181,772	17,372,833	3,191,061	120.66%	22.16%	98.33%
Mar 2002	16,825,868	16,573,480	14,711,285	-1,862,196	87.43%	-11.07%	97.50%
Apr 2002	13,152,979	12,955,685	14,195,028	1,239,344	107.92%	9.42%	98.08%
May 2002	17,850,893	17,583,130	15,676,205	-1,906,925	87.82%	-10.68%	97.61%
Jun 2002	16,025,438	15,785,057	14,013,465	-1,771,592	87.45%	-11.05%	97.68%
Jul 2002	16,150,094	15,907,843	20,621,924	4,714,081	127.69%	29.19%	99.49%
Aug 2002	19,219,544	18,931,250	18,909,753	-21,497	98.39%	-0.11%	100.91%
Sep 2002	16,348,560	16,103,332	15,601,742	-501,590	95.43%	-3.07%	102.02%
Oct 2002	18,350,536	18,075,278	20,132,140	2,056,862	109.71%	11.21%	102.25%
Nov 2002	17,137,660	16,880,595	13,569,772	-3,310,823	79.18%	-19.32%	100.28%
Dec 2002	14,397,256	14,181,297	18,837,150	4,655,853	130.84%	32.34%	102.64%
Jan 2003	16,267,778	16,023,761	16,321,529	297,768	100.33%	1.83%	101.96%
Feb 2003	15,311,975	15,082,295	15,883,822	801,527	103.73%	5.23%	100.73%
Mar 2003	15,683,401	15,448,150	15,896,122	447,972	101.36%	2.86%	101.92%
Apr 2003	15,766,677	15,530,177	15,860,969	330,792	100.60%	2.10%	101.42%
*Total	\$258,153,132	\$254,280,835	\$264,236,783	\$9,955,947	102.36%	3.86%	
Bureau of Water's Performance:							
May 2003	\$16,608,032	\$16,358,911	\$13,002,676	-\$3,356,235	78.29%	-20.21%	100.70%
Jun 2003	19,352,041	19,061,760	14,037,576	-5,024,185	72.54%	-25.96%	99.04%
Jul 2003	17,214,021	16,955,811	18,246,693	1,290,882	106.00%	7.50%	97.34%
Aug 2003	16,979,772	16,725,075	16,343,363	-381,712	96.25%	-2.25%	97.15%
Sep 2003	18,238,279	17,964,704	17,683,435	-281,270	96.96%	-1.54%	97.27%
Oct 2003	18,897,624	18,614,160	19,168,546	554,386	101.43%	2.93%	96.53%
Nov 2003	16,645,332	16,395,652	15,471,284	-924,367	92.95%	-5.55%	97.71%
Dec 2003	17,458,301	17,196,427	18,531,351	1,334,925	106.15%	7.65%	96.10%
Jan 2004	17,191,525	16,933,652	13,016,903	-3,916,749	75.72%	-22.78%	94.06%
Feb 2004	21,330,923	21,010,959	16,117,017	-4,893,942	75.56%	-22.94%	91.49%
Mar 2004	20,446,481	20,139,784	23,627,539	3,487,755	115.56%	17.06%	93.05%
Apr 2004	19,772,421	19,475,835	20,213,956	738,121	102.23%	3.73%	93.33%
May 2004	21,935,399	21,606,368	19,591,043	-2,015,325	89.31%	-9.19%	94.05%
Jun 2004	24,466,786	24,099,784	22,993,613	-1,106,171	93.98%	-4.52%	95.85%
Jul 2004	26,392,756	25,996,865	19,494,580	-6,502,284	73.86%	-24.64%	92.70%
Aug 2004	26,278,814	25,884,631	25,024,522	-860,109	95.23%	-3.27%	92.72%
*Total	\$319,208,506	\$314,420,379	\$292,564,098	\$21,856,281	91.65%	-6.85%	
*Totals may not add up due to rounding.							
SOURCE: Audit staff analysis of C-STAR II reports							

APPENDIX 2 (continued)
DETAILED COMPARISON OF COLLECTION RATE AND COLLECTION RATE VARIANCE
JANUARY 2002 THROUGH AUGUST 2004

Methodology for Calculating the Collection Rate and Collection Rate Variance

The Adjusted Total Billings was calculated by subtracting the billings for city government and public nonrevenue accounts, less payments for those accounts, from the total billings shown for all customer types on the monthly 6248 reports. We then added or subtracted other adjustments shown on the reports.

- **City Government Accounts** – City government accounts are accounts for city-owned facilities that receive water. Although the city pays for the water it receives, it does so through an accounting transaction that transfers money directly into the Water and Sewerage Fund. Since these payments do not pass through the C-STAR II system, it is necessary to subtract the billings for city accounts from the total billings to prevent the collection rate from being understated.
- **Public Nonrevenue Accounts** – Public nonrevenue accounts are for public facilities, such as certain park facilities and Grady Hospital that receive water at no cost or in exchange for services. Since these accounts do not generate revenue, it is necessary to subtract them from the total billings to prevent the collection rate from being understated.
- **Adjustments** – These are adjustments made to bills (e.g., for a loss of water resulting from leaks or to update previously estimated bills based on actual meter readings). The 6248 reports do not adjust the total billings for these adjustments, so it is necessary to add or subtract them to identify an accurate amount on which to base the collection rate calculation.

The Amount to Collect at 98.5% equals the Adjusted Total Billings multiplied by 98.5 percent. Payments Received was taken directly from the 6248 reports. The Variance on Payments Received is the difference between the Amount to Collect at 98.5% and the Payments Received. The Actual Collection Rate equals Payments Received divided by Adjusted Total Billings. The Collection Rate Variance equals the Actual Collection Rate minus 98.5 percent. The 12-Month Average Collection Rate equals the sum of the Payments Received for the most recent 12 months divided by the sum of the Adjusted Total Billings for the most recent 12 months.

This methodology is the same as what was used in our January 2002 report titled *United Water Services Unlimited Atlanta, LLC, Billing and Collection of Water and Sewer Service Charges*.

APPENDIX 3
AUDIT RESPONSE – DEPARTMENT OF WATERSHED MANAGEMENT



CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

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DEPARTMENT OF WATERSHED
MANAGEMENT
ROBERT J. HUNTER
Commissioner

November 24, 2004

Ms. Leslie Ward
City Internal Auditor
City of Atlanta
68 Mitchell Street, SW
Suite 12100
Atlanta, Georgia 30303-0312

Re: Follow-Up Performance Audit: Department of Watershed Management
Billing and Collection of Water and Sewer Service Charges

Dear Ms. Ward:

Thank you for the opportunity to comment on the draft report of your follow-up performance audit. A crucial observation of the draft report is that the accounts receivable balance for the water and sewer fund has risen at a significantly greater rate than the average monthly billing (i.e., the amount due from customers grew at 48.6% while the amount billed grew at 29.4%). This is not an acceptable trend under any successful business model. Perhaps the most succinct of your three recommendations is "start the collections process sooner". I am in absolute agreement with this recommendation. More important than agreement, the Department has taken decisive action and is implementing strong and reasoned policies to correct this and other components of the utility's business operation.

The critical responsibility of the Bureau of Drinking Water in the Department of Watershed Management is to provide safe drinking water to our 1.2 million customers every day. In this regard, the draft report's assertion that we have favored the provision of essential services over termination of service is correct. The draft report notes:

Based on our compilation, the Bureau of Water had lower expenditures in 2003 and 2004 than the Department of Watershed Management estimated in its business plan for resuming control of the city's water system. (p. 3)

However, the critical question is not whether the Bureau spent less money than

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the budget or the cost of United Water's previous operation. The critical question is one of value, the combination of service level and cost. The City can provide the same level of service as United Water for the same or lower cost. However, that level of service was inadequate and that level of performance is unacceptable at any price. The focus must be on how the City can provide the value of a high level of service with a high level of efficiency. In this pursuit the Bureau of Drinking Water has made striking progress in many operational areas including meter reading, meter installation, fire hydrant repair, customer service, water advisories as well as our capital improvement program. In fact, the attachment documents the full or partial implementation of 25 of the 27 recommendations made by your office.

In order to achieve these improvements the Department has mobilized a diverse array of resources including existing Bureau of Drinking Water staff, additional staff from temporary, extra-help positions, intra-Department cross-trained personnel and inter-Department resources. We are currently in the procurement process for both a new billing and a customer information system as well as a contract to replace 100% of our small meters over the next three years. These projects will resolve many of the persistent billing and customer service issues.

We also have proposed a significant restructuring of the Department's business functions in the 2005 budget. Drinking Water and Wastewater billing and collection functions will be transferred to the new Bureau of Management along with the customer service and procurement functions. We believe that the concentration of these business functions into one Bureau when coupled with individual-specific task responsibility, increased training and defined performance metrics will produce remarkable achievements. The Department also has legislation currently in front of City Council that will significantly increase the fees for service termination, plugging meters and removing meters. The ordinance is scheduled for a public hearing on November 30, 2004 with City Council final action anticipated on January 10, 2005.

While these future improvements progress, the Department has taken several immediate actions to "start the collections process earlier". Many of these actions have been initiated in the last few months and many were developed and initiated with staff cooperation from the Office of the City Internal Auditor, and the Departments of Law, Finance and Watershed Management. The following sections are brief synopses of these actions and related statements from the audit report.

Monthly Billing

In September, we instituted monthly rather than bi-monthly billing. One practical application of this change is that customers are sent a second bill that lists past due amounts and a service termination notice on day 31 of the billing cycle

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instead of on day 61. As a significant segment of customers pay their bill just before the next billing date, we anticipate that the change to monthly billing will have a discernable effect on the size of the past due accounts receivable as well as the average collection time.

Collections Program & Service Termination

The Department has instituted more aggressive programs for both collections and service termination. While our in-house collections group has been successful in recovering \$15 million, we concluded that focusing on just the largest past due balances would not solve the long-term problem. Instead we are utilizing a dual implementation strategy. We continue to target chronic and long-term system delinquents. However, we also are enforcing policies earlier in the cycle to prevent accounts from developing into long-term problems. We have also modified our policy for turning accounts over to our outside collection agency. Under the monthly billing program, accounts are now referred for outside collection by day 90.

Service cut-offs are no longer tied to specific dollar thresholds. Therefore the statement in the audit that minimum thresholds may increase with monthly billing is incorrect (page 15). As reported, the \$700 cut-off threshold was in fact tied to staff limitations. However, to the best of our knowledge, there has never been a \$25,000 commercial threshold for service termination.

We have also implemented a dual strategy for service termination. We are taking progressive termination actions for chronic and long-term delinquents, including shut-offs, plugging and meter removal. In addition and similar to our collections policy, we are also shutting off service on day 55 of the billing cycle. We believe that the effective way to eliminate this problem is to attack it from both ends.

Late Fees

The \$5 late fee has been implemented under the new monthly billing cycle. However, the 5% fee cannot be practically implemented with the existing C-Star II billing system. A requirement of the new billing system is the ability to assess percent late fees.

Liens

The use of liens in the collection process is a difficult instrument to manage. The requirement of a 30-day notice has in some cases led to debt avoidance through bankruptcy. However, the most common problem is that under state law liens cannot be placed on an owner's properties for the debts of renters. For several years we have been unsuccessful in having this statutory limitation removed.

While the best policy is take action early so that liens are not necessary, the lien

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issue has compelled us to review our deposit policy. Even under an aggressive collection policy, the average residential customer will incur approximately \$250 in drinking water and wastewater services and charges at the point water is turned off. Our current deposit of \$80 is based on only drinking water service.

The Internal Audit, Watershed Management and Department of Finance staffs have worked together to clarify the lien process and procedures to protect the City's interests. Areas of focus have included the timing and threshold amounts for lien actions as well as effective research procedures. I believe that this cooperative effort will yield more productive actions over the next several months.

Prosecution for Criminal Actions

We have discussed the legal options and requirements for civil and criminal cases with the Law Department and the Atlanta Police Department. We are proceeding with the development of several cases for prosecution.

Writing Off Debts

At this point in our efforts, the process of writing off debts remains a relatively low priority activity. Our emphasis is on providing service and enforcing collection and termination policies. A natural consequence of this emphasis will be the writing off of debts as the in-house and outside collection groups complete their work. Currently, accounts are moved to a bad debt reserve on a quarterly basis with a periodic or year-end adjustment for write-offs.

The Department of Watershed Management appreciates the diligent efforts you and your staff have made in conducting this audit. I know that both teams have gained significant insights during the process. I look forward to the next follow-up audit that will document the results from the many improvements and actions the Department and Bureau have instituted.

Sincerely,

A handwritten signature in black ink, appearing to read 'Robert J. Hunter', with a long horizontal flourish extending to the right.

Robert J. Hunter
Commissioner

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AUDIT RESPONSE – DEPARTMENT OF WATERSHED MANAGEMENT

DEPARTMENT OF WATERSHED MANAGEMENT COMMENTS
Draft Report – Billing and Collection of Water & Sewer Service Charges
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**RESPONSE TO FOLLOW-UP PERFORMANCE AUDIT:
DEPARTMENT OF WATERSHED MANAGEMENT BILLING AND
COLLECTION OF WATER AND SEWER SERVICE CHARGES**

In the November 2004 Report the Internal Auditor recommendations include three major categories:

1. Implement the recommendations of previous reviews
 - Nine primary recommendations with sub-recommendations (total of 22) related to collections;
 - Five recommendations related to a review of the business plan of the new Bureau of Drinking Water
2. Start the collection process sooner;
3. Take legal action against customers who repeatedly turn their water back on after the Bureau terminates service.

The Department of Watershed Management has reviewed the Follow-Up Performance Audit in detail. This attachment summarizes the Department's comments and observations relating to the report's recommendations.

1. IMPLEMENT PREVIOUS RECOMMENDATIONS

All nine of the primary recommendations and all but two of the 27 previous recommendations have been either fully or partially implemented.

COLLECTIONS RECOMMENDATIONS

Recommendation #1 is to review and clean account data; make appropriate write-offs; identify accounts for cut-off and/or collections activity; ensure that customers are properly classified.

All of these recommendations have been at least partially implemented by Watershed Management.

Data cleanup is a continuous process; a list of accounts recommended for write-off was submitted to the Finance Department the week of October 25, 2004, and data cleanup done in June 2004 resulted in the proper classification of accounts. Of concern were multi-family accounts.

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Recommendation #2 calls for identifying accounts to be written off before the 2002 financial statements were prepared; recommending properties to be liened; and pursuing collections activities discussed in Recommendation #3.

These recommendations have been implemented.

The Department has both write-off and lien policies, copies of which are attached, along with associated notices and the Lien Recommendation Report transmitted to Finance in 2004. In 2003, almost \$900,000 was written off, and in October 2004, \$379,000 was forwarded to Finance for write-off. Since May 2003, the Department has recommended that liens be placed in the total amount of \$10.6 million. Being able to recommend more timely liens and write-offs is a direct function of staff resources. The same staff that deals with these two areas is also responsible for myriad customer service functions. The Department of Watershed Management has included significant increases in appropriate resources in the 2005 budget to support these activities.

Recommendation #3 calls for the development and implementation of an aggressive, targeted collection program.

This recommendation is largely implemented.

Beginning the last week in October 2004, we assigned Bureau of Drinking Water personnel (primarily inspectors, meter readers and meter mechanics) and personnel from the Bureau of Wastewater Treatment and Collection to an aggressive collections initiative. These employees are being trained in field meter-related activities (e.g., shut-off, plugging the meter) to work in a coordinated and targeted fashion to pursue customers in arrears. The inter-Bureau cross-training for these functions is a significant milestone in the Department's efforts to improve operational efficiency. We have sorted accounts based on past-due balances and age of delinquency. Initial focus is on largest outstanding balances; including customers who have been shut off multiple times and turned on their own water without making any payment. We are plugging those customers' services immediately. In addition, we have extended Customer Service hours, as recommended, until 8 p.m., Monday through Friday and are assessing the feasibility of Saturday hours. If we do the latter, we will extend collections activities through Friday. Until then, however, we will do shut-offs and plugs, etc. Monday through Thursday. This will allow customers who make the required payment to get their service restored within 24 hours. We have recently had the City Hall payment windows open during a Holiday to facilitate customer payments.

Our intention is to continue to augment our resources with intra-departmental personnel loans and use of overtime. Furthermore, we have instituted a dual

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implementation strategy to our collections program. We intend to continue our efforts on accounts with aged, large balances. However, we are also shutting off accounts with smaller, more recent overdue balances in order to preclude those accounts from increasing to the point of uncollectibility.

The one sub-recommendation not implemented in this area is amnesty; the waiving of late fees if the account is paid in full by a given date. This recommendation will be reconsidered during the first quarter of 2005.

Recommendation #4 calls for the development of collections policies and procedures that are consistent with City Code and clear in terms of actions, timelines, roles and responsibilities.

This recommendation is partially implemented, and will be fully so by June 1, 2005

For example, new late fees and higher fees (approximating actual cost of service) for shut-offs and service restoration are currently before Council and will be in place by January 1, 2005. The late fee will be a flat fee, rather than a percentage of the bill, because of billing system limitations. We will move to a percentage basis, consistent with the existing Code, with the new billing system. Furthermore, in-house collections efforts continue to produce results----\$17.8 Million through October 31, 2004. (Copies of notices to customers regarding delinquencies, as well as the Treasury-DWM Collections Policy and Procedures, are attached.)

Attached is the delineation of the steps in the Collections process and timelines. The timeline and actions are summarized below:

▪ Water/sewer bill generation	Day 1
▪ Due date	Day 25
▪ Late fee assessed to account (\$5)	Day 26
▪ Next bill	Day 31
(Inc. late fee notice; shut-off warning)	
▪ Auto call prior to shut-off	Day 50
▪ Shut off (\$45 charge to account)	Day 55
▪ In-house collections; notification of Credit Bureau; Plug meter (\$75 charge to account)	Day 60
▪ Remove meter; prosecute; lien (\$100 Charge to account)	Day 65
▪ Turn over to Collection Agency	No later than Day 90

APPENDIX 3 (continued)
AUDIT RESPONSE – DEPARTMENT OF WATERSHED MANAGEMENT

City of Atlanta Department of Watershed Management Billing/Collection Timeline									
Meter Reading	Bill	Pay By	Late Fee Assessed	2 nd Bill Delinquent Notification	Auto Calls	Cut Off	In House Collections •Plug Meter •Report to Credit Bureau	Remove Meter •Prosecute •Lien	Collection Agency
*	1	25	26	31	50	55	60	65	90
Day									

* Day meter reading
 Billing window
 Normal scheduled reading date

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Recommendation #5 calls for the development of monthly aged accounts receivable reports, to be used to identify accounts in need of additional collection activities or write-off.

This recommendation is partially implemented.

The Department currently generates such reports and is continually improving them by modifying the various data sorts in order to get the most useful information for making collections decisions.

Recommendation #6 calls for uncollectible accounts to be written off in a timely manner, consistent with generally accepted accounting principles.

This recommendation has been partially implemented and is being accelerated.

We are currently establishing reserves for expected uncollectibles quarterly, and send them to Finance for write off annually. We will institute such a program once the customer account data clean-up process is complete. We are also establishing a database of accounts that have been written off, in order to track lien payments (and any other payments) made against written-off accounts.

Recommendation #7 is to define the term "current" for calculating the collection rate.

This has been implemented.

The definition of "current" is a payment that has been made by the due date. Per the schedule above, that is within 25 days of bill generation.

Recommendation #8 is that a monthly report be generated, using the definition of "current" above to calculate the current collection rate.

This has not been implemented, but will be with the new billing system. The current billing system does not have the required functionality.

Until such time as the new system is in operation, we will continue to track the collection rate on a rolling 12 month average.

Recommendation #9 is for the development of additional indicators of performance in the Collections area.

APPENDIX 3 (continued)

AUDIT RESPONSE – DEPARTMENT OF WATERSHED MANAGEMENT

DEPARTMENT OF WATERSHED MANAGEMENT COMMENTS
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It is partially implemented. We will monitor and report on additional performance measures (e.g. timeliness of collections, number of customers in various stages of the process, revenue collected).

BUSINESS PLAN REVIEW RECOMMENDATIONS

Recommendation #1 is to experiment with evening and weekend hours in Customer Service.

This recommendation has been implemented.

We have extended out telephone business hours from 8 a.m. to 8 p.m. and for face-to-face business at City Hall from 8:15 a.m. to 5 p.m., Monday through Friday. We are also assessing the viability of Saturday hours and satellite customer service locations. In addition, credit card payments can be made 24 hours a day, seven days a week via an automated phone system. Finally, the Department has a Care & Conserve Fund to assist qualified customers in paying their bills. A description of the program is attached.

Recommendation #2 calls for the gradual funding of pensions.

This recommendation has been implemented.

Recommendation #3 calls for periodic reports on expenses compared to the business plan, including such areas as overtime, revenue collections and staffing compared to workload.

This recommendation has been partially implemented, and the expectation is to improve financial planning and reporting in 2005.

Currently the annual budget is tantamount to the financial plan, and a report is prepared monthly to track expenses against the budget. As noted above, some indicators (e.g., revenue collections) are tracked regularly, whereas others receive more concerted focus at budget preparation time. For example, the objective in the business plan was to reduce overtime costs in the Bureau of Drinking Water from a historic level of 14 percent to 7 percent of full-time employee costs. In 2005, that figure was reduced to 8 percent, a major achievement given the Department's emphasis on improved service delivery. Also, by virtue of the fact that the Bureau of Drinking Water will add 80 new positions in 2005, it is evident that there is a wide gap between staffing and

APPENDIX 3 (continued)

AUDIT RESPONSE – DEPARTMENT OF WATERSHED MANAGEMENT

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workload. (Note: The figure includes new positions in the Bureau of Drinking Water, as well as those in Customer Service and IT, which were part of the Bureau in 2004 but will be transferred to the new Bureau of Management in DWM in 2005.)

Recommendation #4 calls for the City to consider providing with its own workforce some services that are currently contracted out.

This recommendation is partially implemented.

The Department is currently looking at this in the area of street cuts, which are being provided by the Department of Public Works and shortly by a contractor. Performance and cost will be tracked and analyzed to determine the more efficient and effective alternative.

Recommendation #5 calls for the development of performance measures, including targets, in order to track progress against targets.

This recommendation has been implemented, and is continually refined.

The Bureau has adopted an extensive performance monitoring and reporting process. Some reports are prepared weekly; some monthly. The monthly report includes performance indicators for all aspects of Bureau operations. The weekly reports for the week ending November 5, 2004, are attached for information.

2. START THE COLLECTION PROCESS SOONER

The recommendation has been implemented. Please refer to the schedule/process above.

3. TAKE LEGAL ACTIONS AGAINST CUSTOMERS FOR WATER THEFT

This recommendation is being implemented. Discussions are ongoing with the City Attorney's office about implementation.

APPENDIX 4
AUDIT RESPONSE – DEPARTMENT OF FINANCE



CITY OF ATLANTA

DEPARTMENT OF FINANCE
68 MITCHELL STREET, S. W., SUITE 11100
ATLANTA, GEORGIA 30335-0312
VOICE (404) 330-6430 FAX (404) 658-6667

SHIRLEY FRANKLIN
MAYOR

JANICE D. DAVIS
CHIEF FINANCIAL OFFICER

November 18, 2004

MEMORANDUM

To: Leslie Ward, City Internal Auditor

From: Janice D. Davis, Chief Financial Officer

Subject: **Draft Water and Wastewater Report**

A handwritten signature in blue ink, likely belonging to Janice D. Davis, Chief Financial Officer.

I have reviewed your draft with my staff. With respect to the action items stated in the draft report, overall I concur that shutting off water should occur earlier in the process. I believe that this is the most effective tool to get water delinquents to pay.

For your information, I have attached our current policies and procedures as it relates to water and wastewater collection, which were completed in June 2003. Also attached is our Lien Status Report through October 31, 2004.

Below are my comments on the action items.

Liening

The primary role for the Department of Finance in the delinquent collection process is the filing of liens. Of the initial list of lien accounts provided by the Department of Watershed Management to the Department of Finance, 94 were duplicate accounts, which left 405 recommended accounts to be liened. There were 144 accounts that were ineligible for liening primarily due to property ownership verification, address verification, and bankruptcy; these accounts represented a legal risk and potential liability if we had filed these illegitimate accounts. To date, the Department of Finance has liened 50 properties. There are an additional 210 accounts in various stages of the lien process, which includes additional Finance research to determine final eligibility.

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AUDIT RESPONSE – DEPARTMENT OF FINANCE

Our Finance staff spends a great deal of time assessing the legitimacy of the liens that we get from the Department of Watershed Management to make certain they are eligible. As a matter of note, we have been significantly more successful in our solid waste liens. We have filed 2,933 of these liens.

Write-offs

We have received write-off candidates from the Department of Watershed Management for 2004 consisting of 777 accounts in an amount of \$379,365.25. Two of these accounts are over \$10,000 and therefore require legislation. They total \$29,660.52. The remaining 775 can be written off administratively. These accounts will be written off this year in order to effectuate some, albeit a slight, reduction in the AR balance.

Collection Agency

The collection agency has received over 25,000 water accounts for licning since the inception of our collection contract. As of the end of September, they have collected \$990,472. There are 2 issues that have impeded their efforts. The first is collecting on renters. Renters are more transient than property owners. This has made the outside collection agency's efforts more difficult. The second issue is commercial and industrial accounts that incur a debt and then are under new ownership. Under current state law, if a business incurs a water delinquency and is under new ownership, then the commercial/industrial account is not liable for the old debt. I have submitted an amendment to the 2005 state legislative package to address this impediment to our collection efforts.

I would like to reiterate that the primary collection role of the Department of Finance is the placement of liens for property owners that have not paid. We have taken action on all the accounts transferred to us from the Department of Watershed Management. Again, I concur that the cutting off of water should occur earlier in the collection process.

We will commit ourselves to working with Watershed Management and to further amend our current policies and procedures as may be necessary. Please let me know if you need additional information.

JDD:gd:wep
Attachments